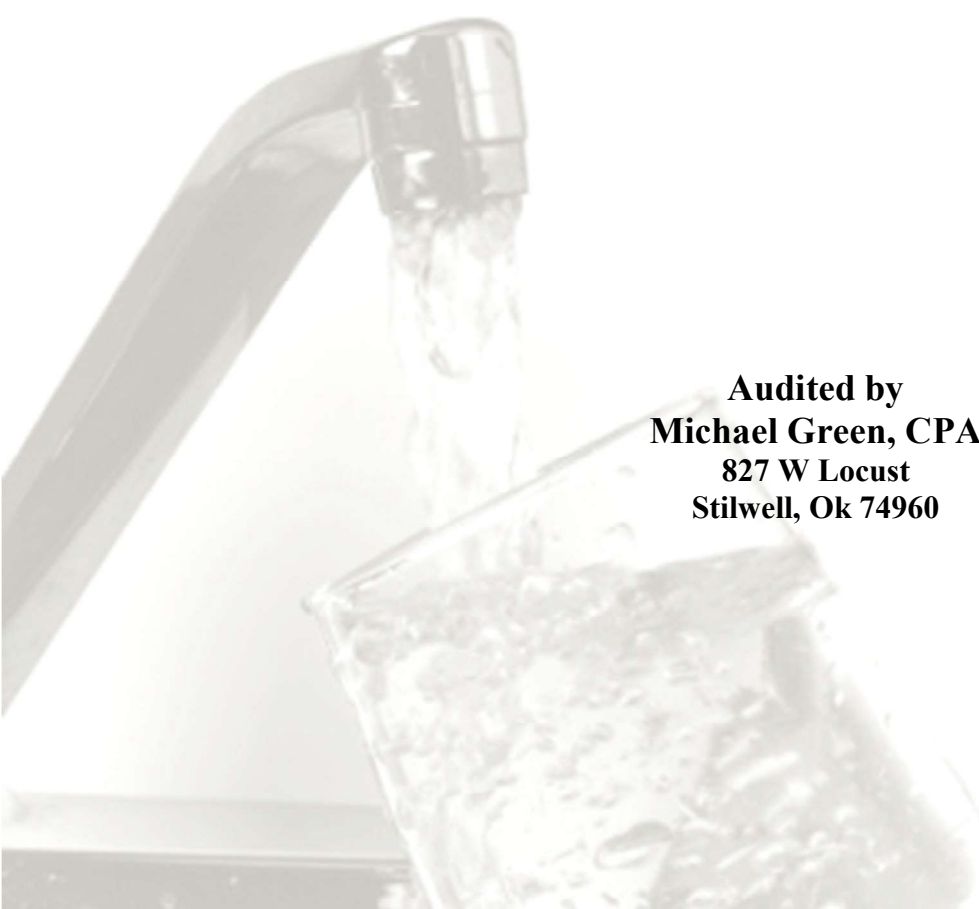


RURAL WATER DISTRICT # 3

Washington County, Oklahoma

Annual Financial Statements & Independent Auditor's Report

December 31, 2021



**Audited by
Michael Green, CPA
827 W Locust
Stilwell, Ok 74960**

RURAL WATER DISTRICT NO. 3
Washington County, Oklahoma

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MICHAEL W. GREEN
Certified Public Accountant
827 W. Locust Street
STILWELL, OK. 74960
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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Rural Water District No. 3
Washington County,
Oklahoma

Opinion

I have audited the accompanying financial statements of the business-type activities and each major fund of Washington County Rural Water District No. 3 (the District), as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type and each major fund of the District, as of December 31, 2021, and the respective changes in financial position, and, where applicable, cash flows thereof for the year ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to my audit. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are

considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and Government Auditing Standards, I:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

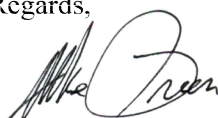
Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The management discussion and analysis is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated April 18, 2022, on my consideration of the District's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Regards,



Michael Green, CPA
Stilwell, Oklahoma

April 18, 2022

**Washington County Rural Water District No. 3
Management's Discussion and Analysis Report
For Fiscal Year 2021
(Ended December 31, 2021)**

Introduction

The purpose for this report is to present, from the District Manager's perspective, an assessment of the financial activities and performance of Washington County Rural Water District No. 3 (hereinafter referred to as the "District") for the audited year. The primary goal of this report is to address the critical question "Is the District as a whole better or worse off as a result of the year's activities?" It is also the goal of this report to present the findings from the audit and other critical operations information in an easy-to-read format for interpretation by the non-accountant.

The information included herein should be read in conjunction with the financial statements prepared by the District's Auditor. Also note that the currency amounts presented herein have been rounded to the nearest dollar.

Financial Highlights

- The amount of water sold in FY '21 (818,281,933 gallons) increased by approximately 4.67 percent when compared to the previous year (sold 781,749,543 gallons in FY '20).
- Revenues from the sale of water accounted for 66% percent of all revenues. The total revenue from water sales increased by approximately 4 percent when compared to FY '20.
- The District expended approximately \$ 604, 470 on new infrastructure during the year.
- The District did improve its position with regard to total liabilities by decreasing their value by \$ 578,354 when compared to FY '20. Total equity increased by approximately \$ 3,202,185.
- The District as a whole is much better off as a result of the year's activities.

Overview of Financial Statements

The financial statements prepared for the FY '21 audit was used to develop this report. A brief description of each statement and their purpose follows:

Statements of Financial Position [Balance Sheet] - The purpose for the “Statements of Financial Position” is to present a summary of the District’s net assets. In simple terms this statement shows what we own (assets) minus what we owe (liabilities). When we compare this years Statement of Financial Position to previous years, we look at how our net worth (i.e., net assets) is increasing or decreasing. This is one indicator of how the District’s financial position is improving or deteriorating.

Statements of Activities - The “Statements of Activities” presents the results of the business activities over the course of the fiscal year and information as to how the net assets changed during the year without regard to when cash was received or paid.

Statements of Cash Flows - The “Statements of Cash Flows” presents changes in cash and cash equivalents (i.e., Accounts Payable and Receivable), resulting from operational, financing and investing activities. This statement shows how the District’s cash on hand changed from the beginning to the end of the year.

Condensed Financial Statements

Condensed Statement of Financial Position

	12/31/21	12/31/20	Dollar Change	Percent Change
Current and Other Assets	\$11,299,389	\$9,685,039	\$1,614,350	14.3%
Capital Assets	\$37,534,286	\$36,524,805	\$1,009,481	2.7%
Total Assets	\$48,833,675	\$46,209,844	\$2,623,831	5.4%
Current Liabilities	\$796,855	\$780,248	\$16,607	2.1%
Long-Term Liabilities	\$16,713,662	\$17,308,623	(\$594,961)	(3.6%)
Total Liabilities	\$17,510,517	\$18,088,871	(\$578,354)	(3.3%)
Net Assets invested in capital assets, net of related debt	\$20,229,199	\$19,606,145	\$623,054	3.1%
Restricted for debt service	\$2,048,758	\$2,018,441	\$30,317	1.5%
Unrestricted net assets	\$9,045,201	\$6,496,387	\$2,548,814	28.2%
Total Net Assets	\$31,323,158	\$28,120,973	\$3,202,185	10.3%

Condensed Statement of Activities

	12/31/21	12/31/20	Dollar Change	Percent Change
Operating Revenues	\$6,999,431	\$6,337,811	\$661,620	9.5%
Non-operating Revenues	\$2,402,619	\$2,686,714	(\$284,095)	(11.9%)
Total Revenues	\$9,402,050	\$9,024,525	\$377,525	4.1%
Depreciation Expense	\$1,370,437	\$1,296,741	\$73,696	5.4%
Other Operating Expenses	\$4,829,428	\$4,355,689	\$473,739	9.8%
Total Expenses	\$6,199,865	\$5,652,430	\$547,435	8.9%
Change in Net Assets	\$3,202,185	\$2,396,174	\$806,011	25.2%
Beginning Net Assets	\$28,120,973	\$25,724,799	\$2,396,174	8.6%
Ending Net Assets	\$31,323,158	\$28,120,973	\$3,202,185	10.3%

Analytical Overview

Sources of Income - The District's primary sources of income are from the sale of water services. Other sources of income include interest on investments; membership fees; and collection fees. The District has no taxing power.

Growth - During the year 447 new benefit units (i.e., water meters) were sold compared to a total of 434 sold in FY '20. The District sold 818,281,933 gallons of water, which represents an approximate decrease of 4.67 percent when compared to FY '20 and was likely a result of more mild weather in FY '21. The increase in last years benefit unit sales is likely the result of a stronger housing market compared to the previous year.

Statements of Net Position:

Total Net Assets - The *Statement of Net Assets* shows that the District's total net assets actually increased by \$ 3,202,185 when compared with FY '20. This increase represents growth in our total net assets. Although current assets (i.e., cash) increased by \$1,614,350, the District's fixed assets (i.e., land, equipment and infrastructure) actually increased by \$ 1,009,481 and the District's investments increased by \$ 2,012,506.

On the the *Statement of Net Assets* we see that the District improved its position with regard to total (i.e., current and long term) liabilities by decreasing their value by \$ 578,354 when compared to FY '20. This decrease occurred primarily in the category of long-term liabilities. Total equity increased by approximately \$ 3,202,185.

Statement of Revenues, Expenditures and Changes in Fund Net Position:

Reviewing the *Statement of Revenues, Expenditures and Changes in Fund Net Position* we can see that the District's change in net assets was \$ 3,202,185. This compared favorably to the net change in net assets of \$ 2,396,174 experienced in FY '20.

Revenues – The District's total operating revenues for FY '21 were \$6,999,431. This represents an increase of approximately \$661,620 or 9.5 percent over FY '20. Approximately 66 percent of our revenues (i.e., \$ 6,181,487) were derived from sale of water services.

Approximately 7.7 percent of revenues \$ 727,300 came from membership fees. Revenues from these items were up 60 percent over FY '20.

Expenses - The District's total operating expenses were \$ 5,672,988. Excluding depreciation and amortization the total operating expenses are reduced to \$ 4,829,428. This represents an approximate increase of \$ 547,435 or 8.9 percent over FY '20.

Statement of Cash Flows:

As shown in the *Statement of Cash Flows* the District had a net increase in cash at the end of the year of \$ 1,430,415.

Annual Budget

As required by the District's By-Laws, an Annual Budget was prepared by the District Manager for FY '21. The basis for the budget included a thorough examination of the actual results from the last several years. The budget also included certain anticipated expenses that were related to budgeted capital projects. The FY '21 Annual Budget was reviewed and approved by the Board during the Board meeting held on March 8, 2021.

Debt Administration:

The remaining balance for all promissory notes (i.e., loans) at the beginning of the year was \$ 17,876,759. No new loans were acquired during 2021 and all scheduled loan and interest payments through December 31, 2021, were made on time. The District reduced its principal on outstanding loans by \$ 571,672. The balance remaining on all outstanding loans is \$ 17,305,087. The sinking fund for the District's loans is fully funded.

Highlights of Other Critical Information:

- In Fiscal Year 2021 the District has continued to meet the new and more stringent water quality regulations. This includes monthly testing for Total Organic Carbons (TOC's) and quarterly testing for Trihalomethanes (THM's) and Haloacetic Acids (HAA's). We also tested for bi-annually for certain Synthetic Organic Compounds (SOC's). The District is pleased to report that our water quality complied with all the regulations.
- Caney River Raw Water Supply Project
 - Legal action filed by the Contractor against the District is in progress.
- Water Treatment Plant Expansion Project
 - Legal action by Design Engineer of WTP Expansion Project continued against the District in 2021.
- Water Resources Master Planning – We continue work on a new master plan for the District.
- Oklahoma Department of Transportation – The District worked with ODOT on the following projects:
 - Highway 11 – The District continued work on engineering and design for the relocation of approximately 3 miles of water lines along Highway 11.
- Owasso Utility Relocation Projects – The District shared cost with the City of Owasso on various projects including:
 - 116th St. North and 129th East Ave. intersection widening.
 - 116th St. North Road widening between Highway 169 and 129th East Ave.
 - 106th St. North and 145th East Ave. intersection widening.
- Tulsa County Utility Relocation Projects
 - Horse Pen Creek - The District worked with Tulsa County on completing the required water line relocations along old Highway 169 south of 166th Str. N.
 - 86th Street between Hwy 75 and Memorial – The District worked with Tulsa County to initiate planning for water line relocations in this corridor.
- 24-Inch Water Line Extension – Planning efforts continued for the extension of approximately three (3) miles of new 24-inch water line beginning at the North WTP and extending south.
- Sheridan Booster Pump Station – The District completed engineering and design for the construction of a new booster pump station to be located near the intersection of 106th Street North and Sheridan.
- North Water Treatment Plant Residuals Management – The District started work on permitting and engineering for residuals management.

Conclusions – The District as a whole has a better financial position than a year ago. The value of our total liabilities decreased while the value of our total equity increased. Our total debt service was decreased by \$ 571,672. We ended the year with more cash and investments (i.e., \$ 1,430,415) than we started with.

Looking Forward – As we look forward to Fiscal Year 2022, we anticipate our growth to be the same or slightly lower than that which was experienced in FY '21. We also anticipate progress on the following major capital projects:

- Water Treatment Plant Expansion Project: We anticipate progress on the lawsuit for this project.
- Caney River Raw Water Supply Project: We anticipate progress on the lawsuit for this project.
- Water Quality Regulations – We will continue sampling and testing for S.O.C. as mandated by the EPA.
- Water Resources Master Plan – We will continue working on the master plan in 2022. This master plan will identify future capital needs with emphasis on priority.
- Sheridan Booster Pump Station – The District will complete construction on the new booster pump station.
- Future Water Lines – The District is planning:
 - To develop plans for the construction of new 24-inch water line.
 - The District will work with the ODOT on the following:
 - To complete relocation plans and construction for relocation of certain water lines along Highway 11.
 - The District will work with Tulsa County to prepare water line relocation plans for the following:
 - Along 86th Street North from Hwy 75 to Memorial.
 - The District will continue to work with Owasso on the following:
 - Water line relocations near the intersection of 116th Street North and Garnett.
 - Water line relocations along 116th Street North between 129th East Avenue and Garnett.
 - Water line relocations in the intersection of 106th and 129th East Avenue.
 - Water line relocations along 96th Street North between Garnett and 129th East Avenue.

**RURAL WATER DISTRICT NO. 3
WASHINGTON COUNTY, OKLAHOMA**

**STATEMENT OF NET POSITION
DECEMBER 31, 2021**

	<u>2021</u>
ASSETS	
Current assets:	
Cash	\$ 2,957,767
Restricted cash (Note 1.E)	2,048,758
Investments	5,300,000
Accounts receivable	468,332
Accrued interest receivable	3,129
Inventory	458,835
Prepaid insurance	62,568
Total current assets	<u>11,299,389</u>
Noncurrent assets:	
Capital assets:	
Building & land	576,497
Machinery & tools	436,731
Automotive equipment	456,229
Furniture & fixtures	116,212
Lab equipment	40,706
Water treatment & distribution system	55,253,957
Construction in Progress	148,796
Less accumulated depreciation	<u>(19,494,842)</u>
Total capital assets	<u>37,534,286</u>
Total Assets	<u><u>\$ 48,833,675</u></u>
LIABILITIES	
Current liabilities:	
Accounts payable	\$ 51,925
Accrued interest payable	153,505
Current portion of long-term debt (Note 2)	591,425
Total current liabilities	<u>796,855</u>
Noncurrent liabilities:	
Revenue Bonds payable net of premium (Note 2)	12,907,232
Notes payable (Note 2)	4,397,855
Less: current portion	<u>(591,425)</u>
Total noncurrent liabilities	<u>16,713,662</u>
Total Liabilities	<u>17,510,517</u>
NET POSITION	
Net Investment in Capital Assets	20,229,199
Restricted for Debt Service	858,333
Restricted for Capital and Other	1,190,425
Unrestricted	<u>9,045,201</u>
Total Net Position	<u><u>\$ 31,323,158</u></u>

**RURAL WATER DISTRICT NO. 3
WASHINGTON COUNTY, OKLAHOMA**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2021**

	2021
Operating revenues:	
Water sales (net of adjustments)	\$ 6,181,487
Penalties, fees, service charges and miscellaneous	817,944
Total operating revenues	<u>6,999,431</u>
Operating expenses:	
Salaries, wages & contract labor	1,211,361
Payroll taxes	96,443
Employee benefits	54,709
Utilities	379,328
Telephone	4,245
Equipment expense	10,584
Depreciation	1,370,437
Vehicle expense	55,766
Building, vehicle & other insurance	291,975
Plant repair & maintenance	183,999
Chemicals	1,004,891
Travel, entertainment & miscellaneous	48,282
Licenses & fees	44,380
Plant supplies	480,400
Water purchased	7,462
Office expense & postage	88,014
Professional fees	340,712
Total operating expenses	<u>5,672,988</u>
Net operating income	<u>1,326,443</u>
Nonoperating revenue (expense)	
New benefit units	727,300
Contribution of developments	1,651,607
Interest income	23,712
Interest Expense	(526,877)
Total nonoperating revenue (expense)	<u>1,875,742</u>
Operating transfers: In	402,000
Operating transfers: Out	(402,000)
Total Operating Transfers	<u>-</u>
Change in net position	3,202,185
Net position beginning of year	<u>28,120,973</u>
Net position end of year	<u><u>\$ 31,323,158</u></u>

**RURAL WATER DISTRICT NO. 3
WASHINGTON COUNTY, OKLAHOMA**

**STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2021**

	<u>2021</u>
Cash flows from operating activities:	
Receipts from customers	\$ 7,005,717
Payments to suppliers	(3,136,941)
Payments to employees	(1,362,513)
Receipts for fiduciary funds	1,798,644
Payments to fiduciary governments	(1,798,644)
Net cash provided (used) by operating activities	<u>2,506,263</u>
Cash flows from noncapital financing activities:	
Transfers from (to) investments	402,000
Other Non-Operating Income	1,249,607
Net cash provided (used) by noncapital financing activities	<u>1,651,607</u>
Cash flows from capital and related financing activities:	
New benefit units	727,300
Purchase of capital assets (net of non-cash contributions)	(2,379,918)
Principal paid on capital debt	(571,672)
Interest paid on capital debt	(526,877)
Net cash provided (used) by capital and related financing activities	<u>(2,751,167)</u>
Cash flows from investing activities:	
Interest income	<u>23,712</u>
Net increase (decrease) in cash and cash equivalents	1,430,415
Cash balance beginning of year (adjusted to include restricted cash)	<u>3,576,110</u>
Cash balance end of year (non-restricted & restricted)	<u><u>\$ 5,006,525</u></u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating income (loss)	\$ 1,326,443
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Cash flows reported in other categories:	
Depreciation expense	1,370,437
Change in assets and liabilities:	
Accounts receivable	6,286
Inventory	(190,221)
Accounts payable	(6,682)
Accrued interest payable	-
Net cash provided by operating activities	<u><u>\$ 2,506,263</u></u>
Additional Cash Flow Information	
Interest Paid	\$ 526,877

RURAL WATER DISTRICT NO. 3
Washington County, Oklahoma

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2021

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Washington County Rural Water District Number 3 (the District) complies with accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations.) The accounting and reporting framework and the more significant accounting policies established by GAAP and used by the District are discussed below.

A. REPORTING ENTITY

The District was organized in 1965, under Title 82, O.S. Supp. 1972, Sections 1324.1 to 1324.26 for the purpose of providing a water works system including all physical facilities, improvements and services necessary for executing that purpose, in Washington, Osage, Tulsa and Rogers counties. Since the District is a political subdivision of the State of Oklahoma, under Title 82, it is exempt from Federal and State income taxes.

The membership consists of approximately 11,500 benefit unit holders, each entitled to one vote. Subscribers to benefit units pay a \$ 1,500 subscription fee (\$ 1,000 prior), which is non- refundable, and entitles the holder to one line from the District's water system. The Board of Directors consist of 7 members serving 3 year terms. The vacant Board seats are filled at the annual meeting in April, and following, the Board of Directors meet and elect a Chairman, Vice-Chairman, Secretary and Treasurer.

B. BASIS OF ACCOUNTING

The District's policy is to prepare its financial statements on the accrual basis of accounting; consequently, revenue and the related assets are recognized when earned, and expenditures are recognized when the obligation is incurred.

C. CASH AND CASH EQUIVALENTS

For the purpose of financial reporting, "cash and cash equivalents" include all demand and savings accounts and certificates of deposit or short-term investments with an original maturity of three months or less.

D. INVENTORY

The District utilizes a perpetual inventory system for supplies. The supplies on hand at year end are valued at the lower of cost or market, on a first-in, first-out basis, and included in the December 31, 2021, financial statements at \$ 458,835.

E. FIXED ASSETS

All fixed assets are recorded at their original acquisition cost. Depreciation is provided in the financial statements utilizing the following estimated useful lives:

	<u>Years</u>
Office Building	40
Water Plant & System	40
Furniture, Fixtures & Equipment	10
Machinery & Tools	10-15
Automotive	5
Office Equipment	5-15

A summary of the fixed asset accounts for the year ended December 31, 2021, is as follows:

	Balance			Balance
	December 31, 2020	Additions	Disposals	December 31, 2021
Building & Land	\$ 503,631	72,866	-	\$ 576,497
Machinery & Tools	385,759	50,972	-	436,731
Automotive	456,229	-	-	456,229
Furniture, Fixtures & Equipment	116,212	-	-	116,212
Lab Equipment	40,706	-	-	40,706
Water Treatment & Dist System	53,125,175	2,128,782	-	55,253,957
Construction in Progress	21,500	127,296	-	148,796
	54,649,212	2,379,916	-	57,029,128
Less Accumulated Depreciation	(18,124,405)	(1,370,437)	-	(19,494,842)
Net Property and Equipment	<u>\$ 36,524,807</u>	<u>1,009,479</u>	<u>-</u>	<u>\$ 37,534,286</u>

F. DEPOSITS AND INVESTMENTS

Cash and investments include all deposits held by financial institutions - money market accounts, savings accounts and certificates of deposit. At year-end, the bank balance of the District's deposits totaled \$ 10,306,525. All funds were either covered by federal depository insurance or collateralized by securities pledged to the District by various depository banks.

Investment Interest Rate Risk – the District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Concentration of Credit Risk – The District places no limit on the amount it may invest in any one issuer. Since the District has all investments in certificates of deposit, money market, and mutual funds there is no concentration of investment credit risk exposure.

The deposits and investments held at December 31, 2021, are as follows:

Acct Name	Balance 12/31/2021	Restricted	Unrestricted
Cash on Hand	\$ 500	-	\$ 500
RCB Bank			
Cash in Bank Operating	955,208	-	955,208
RECD Reserve	46,810	46,810	-
RECD Reserve #2	21,266	21,266	-
RUS Reserve - CRP	242,285	242,285	-
Caney River Project	154	154	-
North Treatment Plant Construction	135,272	135,272	-
Hwy 20	48	48	-
Interest Reserve	211,734	211,734	-
	<u>1,612,777</u>	<u>657,569</u>	<u>955,208</u>
Certificates of Deposits (summarized)	<u>3,750,000</u>	<u>-</u>	<u>3,750,000</u>
American Bank of Oklahoma			
Certificates of Deposits (summarized)	<u>1,300,000</u>	<u>-</u>	<u>1,300,000</u>
Armstrong Bank			
Certificates of Deposits	<u>250,000</u>	<u>-</u>	<u>250,000</u>
Bank First			
Project Fund	1,190,425	1,190,425	-
Bond Fund	200,764	200,764	-
Sinking Fund	-	-	-
	<u>1,391,189</u>	<u>1,391,189</u>	<u>-</u>
First Bank of Owasso			
Money Market	<u>2,002,059</u>	<u>-</u>	<u>2,002,059</u>
TOTAL CASH and DEPOSITS	5,006,525	2,048,758	2,957,767
TOTAL CERTIFICATE of DEPOSITS	5,300,000	-	5,300,000
Totals	<u>\$ 10,306,525</u>	<u>2,048,758</u>	<u>\$ 8,257,767</u>

G. STATEMENT OF CASH FLOWS

For purposes of the Statement of Cash Flows, the District considers demand accounts, subject to withdrawal by check, and cash on hand, as cash or cash equivalents.

H. COMPENSATED ABSENCES

Employees must complete one (1) year of continuous service before earning two (2) weeks of vacation time per calendar year. Employees who have completed two (2) years through five (5) years of continuous service will earn three (3) weeks of vacation time per calendar year. Beginning in the sixth (6) year of continuous service, employees will earn four (4) weeks of vacation time per calendar year. Beginning in the twentieth (20) year of continuous service, employees will earn five (5) weeks of vacation time per calendar year. Vacation time is computed on a calendar year basis.

Vacation pay is vested, and thus paid upon retirement or separation (with two weeks' notice.) Vacation time is to be taken during the calendar year. Employees are required to utilize at least one-half of earned vacation time. The remaining vacation time will be paid at year end, and does not carry over to the next year without Board approval. The vacation accrued at December 31, 2021, was paid the last week of 2021 and the balance at December 31, 2021, was \$ 0.00.

All full- time employees are eligible for sick leave, after six months service, accrued at four hours per month (6 days per year.) Employees may accrue a maximum of 120 days of sick leave. Sick leave is not vested, and is lost upon separation.

I. ACCOUNTS RECEIVABLE

Accounts receivable at December 31, 2021 represent charges for services provided to customers. The District utilizes the direct charge-off method of recognition of bad debts. Uncollectible accounts are an insignificant amount each year, thus there is no reserve for uncollectible accounts at December 31, 2021.

J. INVESTMENTS

Investments classified in the financial statements, consist entirely of certificates of deposit whose original maturity term exceeds three months, money market, and mutual funds. Investments are carried at cost, which approximate fair value.

K. USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period (such as estimated useful lives in determining depreciation expense.) Accordingly, actual results could differ from those estimates.

L. EQUITY CLASSIFICATION

a) Net position is displayed in three components:

Invested in capital assets, net of related debt – consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction,

or improvements of those assets.

b) Restricted fund balance:

Consists of net assets with constraints placed on the use either by an external group such as creditors, grantors, contributors, or laws and regulation of other governments, or by law through constitutional provisions or enabling legislation.

c) Unrestricted fund balance:

All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

The District applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

M. BUDGETARY DATA

In accordance with the by-laws of the District, the Board of Directors prepare a budget, under the accrual basis of accounting.

N. FUNDS

During 2020 the District added a bond fund for servicing the bond debt in accordance with the Bond Indenture discussed in note 2.C.

During 2021 the District also evaluated its Fiduciary Fund as prescribed by GASB Statement No. 84. The District has concluded it does have Fiduciary responsibility for billing and collecting on behalf of other municipalities. However, the exception allowed in GASB Statement No. 84 paragraph 19 applies to these financial statements since the funds are not held more than 90 days, therefore a separate Fiduciary Fund is not required.

NOTE 2: LONG-TERM DEBT

A. RURAL DEVELOPMENT LOANS

During a previous year, the District entered into a loan agreement with the Rural Utilities Service division of the USDA for \$ 4,800,000. The loan bears interest at 3.75 %, and requires monthly payments of \$ 19,344, beginning December 17, 2010, through November 17, 2050 (forty years.) The proceeds of the loan was utilized to acquire and construct water system improvements, namely the Caney River project. The total cost of the project was approximately \$ 6,300,000, thus the District provided the balance of the funds for the project (\$ 1,500,000.) The total balance outstanding under the loan as of December 31, 2021, was \$ 3,894,252.

This loan requires that a reserve be established in the amount of \$ 1,934.40 per month, until a balance of \$ 232,128 is maintained. During the year ended December 31, 2011, the District funded the reserve in full. The balance in the reserve account at December 31, 2021, was \$ 242,285.

During the year ended December 31, 2000, the District entered into two separate loan agreements with the Rural Economic and Community Development division of the USDA for \$ 724,200 and

\$329,000. The loans bear interest at 5.5 %, and require monthly payments of \$ 3,737 and \$ 1,698, respectively, beginning November 4, 2000, through October 4, 2040. The proceeds of the loans were utilized to renovate and upgrade the existing north water treatment plant. The total cost of the project was approximately \$ 1,746,000. Thus, the District provided the balance of the funds for the project (approximately \$ 692,000.) The total balance outstanding under the loans as of December 31, 2021, was \$ 466,855.

Each of the loans require that a reserve be established in the amount of \$ 373.70 per month for the \$724,200 loan, until a balance of \$ 44,844 is maintained, and in the amount of \$ 169.80 per month for the \$ 329,000 loan, until a balance of \$ 20,376 is maintained. As of December 31, 2021, the balances in the reserve accounts was \$ 46,810 and \$ 21,266.

B. REFUNDING AND CAPITAL IMPROVEMENT REVENUE BONDS

On March 16, 2020, the District issued Revenue Bonds to payoff the balance of a loan with Oklahoma Water Resources Board (OWRB) (Note 2.B.) and fund future Capital Projects. The Par Amount of Bonds was \$12,605,000 which sold at a premium of \$959,204. The proceeds were utilized as follows; payoff of OWRB Debt (\$11,985,159), capital project fund (\$1,189,922), establishing bond fund (\$20,024), and bond issue fee expenses (\$384,203).

The bond agreement requires monthly payments into a debt service account (Bond Fund), to be held by a trustee, who will make semi-annual payments of principal and interest on March 15th and September 15th each year beginning September 15, 2020 and ending September 15, 2041. As of December 31, 2021, the bond fund was funded as required with a balance of \$200,764.

The bond premium of \$ 959,204 is amortized over the life of the bonds using the effective interest method. The bond coupons carry an interest rate between 2% and 3%. At December 31, 2021, the balance of the bond premium was \$952,232 and the balance of the bonds payable was \$ 11,955,000.

C. CHANGES IN LONG-TERM DEBT

The following is a summary of changes in Long-term debt for the year ended December 31, 2021.

Type of Debt	Balance 12/31/2020	Additions	Reductions	Balance 12/31/2021	Amount Due Within One Year
Business Type Activities:					
RECD Loan 724,200	\$ 485,464	-	(18,609)	466,855	\$ 19,659
RECD Loan 329,000	54,569	-	(17,821)	36,748	18,825
RUS Loan	3,978,627	-	(84,375)	3,894,252	87,596
Revenue Bond	12,400,000	-	(445,000)	11,955,000	455,000
Revenue Bond Premium	958,099	-	(5,867)	952,232	10,345
Total Business Type Activities:	<u>\$ 17,876,759</u>	<u>-</u>	<u>(571,672)</u>	<u>17,305,087</u>	<u>\$ 591,425</u>

D. DEBT SERVICE REQUIREMENTS

The annual debt service requirements to maturity, including principal and interest, for the long-term debt as of December 31, 2021, is as follows:

Year Ended				
June 30	Principal	Interest	Total	
2022	\$ 591,425	\$ 518,518	\$ 1,109,943	
2023	604,202	503,857	1,108,059	
2024	624,614	488,301	1,112,914	
2025	653,429	469,286	1,122,715	
2026	681,820	449,540	1,131,360	
2027-2031	3,136,653	1,709,506	4,846,159	
2032-2036	4,221,175	1,419,025	5,640,200	
2037-2041	5,456,430	768,214	6,224,643	
2042-2046	999,525	161,115	1,160,640	
2047-2051	335,814	9,931	345,745	
Totals	<u>\$ 17,305,087</u>	<u>6,497,292</u>	<u>\$ 23,802,379</u>	

NOTE 3: WATER PURCHASE CONTRACT

The District purchases water from Lake Oologah (an impoundment of the Verdigris River) the Skiatook Reservoir (an impoundment of Hominy Creek) and the City of Tulsa. In connection therewith, the District has contracts with the United States Corps of Engineers and the City of Tulsa, and permits to appropriate stream water, from the Verdigris River, Hominy Creek and the Caney River, with the Oklahoma Water Resources Board.

NOTE 4: INVESTMENTS

Investments as of December 31, 2021, are summarized as follows:

	Fair Cost	Carrying Value	Value
Restricted:			
Mutual Funds	\$ 1,391,189	1,391,189	\$ 1,391,189
Money Market	2,002,059	2,002,059	2,002,059
	<u>\$ 3,393,248</u>	<u>3,393,248</u>	<u>\$ 3,393,248</u>

NOTE 5: FAIR VALUE MEASUREMENTS

Governmental Accounting Standards Board Statement No. 72 establishes a framework for measuring fair value. That Framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurements).

The three levels of the fair value hierarchy under GASB Stmt. No 72 are described below:

Level 1 Valuation based on unadjusted quoted prices in active markets for identical assets or liabilities that the Foundation has the ability to access. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these securities does not entail a significant degree of judgment.

Level 2 Valuations based on quoted prices in markets that are not active or on valuation models for which all significant inputs are observable, either directly or indirectly.

Level 3 Valuation based on inputs that are unobservable and significant to the overall fair value measurement. Level 3 investments include situations where there is little, if any, market activity for the investments. The inputs into the determination of fair value are based upon the best information in the circumstances and may require significant management judgment or estimation.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for significant assets and liabilities measured at fair value at December 31, 2021:

Money market funds and certificates of deposits: Consist of cash deposits with financial institutions and money market funds. The District uses quoted market prices of identical assets on active exchanges, or Level 1 measurements.

Investments: Primarily consist of domestic equity, international equity, and fixed income funds. The District uses quoted market prices of identical assets on active exchanges, or Level 1 measurements.

Other assets: Primarily consists of accounts receivable, and inventory. The assets are valued based upon the expected collectible amount, lower of cost or market on a first-in, first-out method, and other unobservable inputs or Level 3 measurements.

The methods described above may produce a fair value calculation that may not be indicative of the net realizable value or reflective of future fair values. Furthermore, while the District believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table set forth by level, within the fair value hierarchy, the District's assets and liabilities at fair value as of:

Assets at Fair Value as of December 31, 2021				
	Level 1	Level 2	Level 3	Total
Investments:				
Mutual Funds	\$ -	1,391,189	-	\$ 1,391,189
Money Market	2,002,059	-	-	2,002,059
Total	2,002,059	1,391,189	-	3,393,248
Certificates of Deposit	5,300,000	-	-	5,300,000
Total	5,300,000	-	-	5,300,000
Other Assets:				
Accounts Receivable	-	-	468,332	468,332
Inventory	-	-	458,835	458,835
	-	-	927,167	927,167
Total	\$ 7,302,059	1,391,189	927,167	\$ 9,620,415

Assets and liabilities in all levels could result in volatile and material price fluctuations. Realized and unrealized gains and losses on Level 3 assets and liabilities represent only a portion of the risk to market fluctuations in the balance sheet.

NOTE 6: RETIREMENT PLAN

The District participates in a governmental Section 457 salary reduction plan. The plan is managed by Pension Solutions. All full time employees are eligible to participate. The District contributes 4 % of each employee's gross salary, monthly, to the plan. Employees are eligible to contribute a percentage of their compensation up to a maximum amount allowed by the plan, and if they contribute at least 2 %, then the District matches that up to 2 %. All District contributions become fully vested after 1 year of service.

NOTE 7: LITIGATION

The District is a party to various legal proceedings that normally occur in the course of operations. The financial statements do not include accruals or provisions for loss contingencies that may result from these proceedings. While the outcome of the above noted proceedings cannot be predicted, due to the insurance coverage maintained by the District, the District feels that any settlement or judgment not covered by insurance would not have a material adverse effect on the financial condition of the District.

NOTE 8: UNCERTAINTIES

In March 2020, the State of Oklahoma and the CDC issued guidelines due to the Covid-19 Pandemic. This resulted in a massive disruption in daily business and the overall economy as nonessential businesses were advised to close and hundreds of employees were laid off their jobs. The impact of the shutdown to the economy is immeasurable at this time. However, as of the date of issuance of this report there have been no difficulties in continuing the operations of services for the District.

This information is provided for informational purposes only and does not affect the opinion of the audit report as of December 31, 2021.

NOTE 9: SUBSEQUENT EVENTS

Subsequent events have been evaluated through April 18, 2022, which is the date the financial statements were available to be issued.

**RURAL WATER DISTRICT NO. 3
WASHINGTON COUNTY, OKLAHOMA**

**COMBINING STATEMENT OF NET POSITION
DECEMBER 31, 2021**

	Bond Fund 2021	Enterprise Fund 2021	Total 2021
ASSETS			
Current assets:			
Cash	\$ -	\$ 2,957,767	\$ 2,957,767
Restricted cash (Note 1.E)	1,391,189	657,569	2,048,758
Investments	-	5,300,000	5,300,000
Accounts receivable	-	468,332	468,332
Accrued interest receivable	-	3,129	3,129
Inventory	-	458,835	458,835
Prepaid insurance	-	62,568	62,568
Total current assets	<u>1,391,189</u>	<u>9,908,200</u>	<u>11,299,389</u>
Noncurrent assets:			
Other assets:			
Capital assets:			
Building & land	-	576,497	576,497
Machinery & tools	-	436,731	436,731
Automotive equipment	-	456,229	456,229
Furniture & fixtures	-	116,212	116,212
Lab equipment	-	40,706	40,706
Water treatment & distribution system	-	55,253,957	55,253,957
Construction in Progress	-	148,796	148,796
Less accumulated depreciation	-	(19,494,842)	(19,494,842)
Total capital assets	<u>-</u>	<u>37,534,286</u>	<u>37,534,286</u>
Total Assets	<u>1,391,189</u>	<u>47,442,486</u>	<u>48,833,675</u>
LIABILITIES			
Current liabilities:			
Accounts payable	\$ -	\$ 51,925	\$ 51,925
Accrued interest payable	-	153,505	153,505
Current portion of long-term debt (Note 2)	-	591,425	591,425
Total current liabilities	<u>-</u>	<u>796,855</u>	<u>796,855</u>
Noncurrent liabilities:			
Revenue Bonds payable net of premium (Note 2)	-	12,907,232	12,907,232
Notes payable (Note 2)	-	4,397,855	4,397,855
Less: current portion	-	(591,425)	(591,425)
Total noncurrent liabilities	<u>-</u>	<u>16,713,662</u>	<u>16,713,662</u>
Total Liabilities	<u>-</u>	<u>17,510,517</u>	<u>17,510,517</u>
NET POSITION			
Net investment in capital assets	-	20,229,199	20,229,199
Restricted for debt service	200,764	657,569	858,333
Restricted for capital and other	1,190,425	-	1,190,425
Unrestricted	<u>-</u>	<u>9,045,201</u>	<u>9,045,201</u>
Total Net Position	<u>\$ 1,391,189</u>	<u>\$ 29,931,969</u>	<u>\$ 31,323,158</u>

**RURAL WATER DISTRICT NO. 3
WASHINGTON COUNTY, OKLAHOMA**

**COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2021**

	Bond Fund 2021	Enterprise Fund 2021	Total 2021
Operating revenues:			
Water sales (net of adjustments)	\$ -	\$ 6,181,487	\$ 6,181,487
Penalties, fees, service charges and miscellaneous	-	817,944	817,944
Total operating revenues	-	6,999,431	6,999,431
Operating expenses:			
Salaries, wages & contract labor	-	1,211,361	1,211,361
Payroll taxes	-	96,443	96,443
Employee benefits	-	54,709	54,709
Utilities	-	379,328	379,328
Telephone	-	4,245	4,245
Equipment expense	-	10,584	10,584
Depreciation	-	1,370,437	1,370,437
Vehicle expense	-	55,766	55,766
Building, vehicle & other insurance	-	291,975	291,975
Plant repair & maintenance	-	183,999	183,999
Chemicals	-	1,004,891	1,004,891
Travel, entertainment & miscellaneous	-	48,282	48,282
Licenses & fees	-	44,380	44,380
Plant supplies	-	480,400	480,400
Water purchased	-	7,462	7,462
Office expense & postage	-	88,014	88,014
Professional fees	-	340,712	340,712
Total operating expenses	-	5,672,988	5,672,988
Net operating income	-	1,326,443	1,326,443
Nonoperating revenue (expense)			
New benefit units	-	727,300	727,300
Contribution of developments	-	1,651,607	1,651,607
Interest income	107	23,605	23,712
Interest Expense	(391,659)	(135,218)	(526,877)
Total nonoperating revenue (expense)	(391,552)	2,267,294	1,875,742
Operating Transfers: In	402,000	-	402,000
Operating Transfers: Out	-	(402,000)	(402,000)
Total Operating Transfers	402,000	(402,000)	-
Change in net position	10,448	3,191,737	3,202,185
Net position beginning of year	1,380,741	26,740,232	28,120,973
Net position end of year	\$ 1,391,189	\$ 29,931,969	\$ 31,323,158

**RURAL WATER DISTRICT NO. 3
WASHINGTON COUNTY, OKLAHOMA**

**BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2021**

- UNAUDITED -

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget Favorable (Unfavorable)
Beginning Budgetary Balance	\$ 4,334,628	\$ 4,334,628	\$ 4,334,628	\$ -
Operating Revenues:				
Water sales	6,330,000	6,330,000	6,181,487	(148,513)
Memberships	510,000	510,000	727,300	217,300
Penalties, fees, service charges & misc	339,000	339,000	817,944	478,944
Total operating revenues	7,179,000	7,179,000	7,726,731	547,731
Operating Expenses:				
Salaries	1,310,000	1,310,000	1,200,794	109,206
Contract labor	20,000	20,000	10,567	9,433
Payroll taxes	105,500	105,500	96,443	9,057
Retirement	70,000	70,000	54,709	15,291
Automobile	120,000	120,000	55,766	64,234
Equipment expense	60,000	60,000	10,584	49,416
Chemicals	1,140,000	1,140,000	1,004,891	135,109
Subscriptions / License / Fees	52,000	52,000	43,411	8,589
Education	9,000	9,000	969	8,031
Supplies	750,000	750,000	480,400	269,600
Office expense	66,000	66,000	40,217	25,783
Postage	54,000	54,000	47,797	6,203
Professional fees	370,000	370,000	340,712	29,288
Line Extensions	700,000	700,000	51,430	648,570
Repair & maintenance	200,000	200,000	154,334	45,666
Telephone	22,000	22,000	4,245	17,755
Utilities	400,000	400,000	379,328	20,672
Travel	11,000	11,000	-	11,000
Uniforms	5,000	5,000	-	5,000
Water Purchased	10,000	10,000	7,462	2,538
Insurance	320,000	320,000	291,975	28,025
Taxes	50	50	50	-
Refunds	32,000	32,000	26,467	5,533
Total operating expenses	5,826,550	5,826,550	4,302,551	1,523,999
Non-operating (income) expenses:				
Caney River loan payments	232,128	232,128	232,128	-
N. Plant loan payments	800,932	800,932	800,932	-
FmHA loan payments	65,220	65,220	65,220	-
N. Plant upgrade	-	-	-	-
Miscellaneous income	-	-	(1,651,607)	1,651,607
Interest income	(25,000)	(25,000)	(23,712)	(1,288)
Total non-operating (income) expenses	1,073,280	1,073,280	(577,039)	1,650,319
Total Expenses	6,899,830	6,899,830	3,725,512	3,174,318
Ending Budgetary Balance	\$ 4,613,798	\$ 4,613,798	\$ 8,335,847	\$ 3,722,049

RURAL WATER DISTRICT NO. 3
Washington County, Oklahoma

NOTES TO BUDGETARY COMPARISON SCHEDULE
For the Year Ended December 31, 2021

Budgetary Information

In accordance with the by-laws of the District, the Board of Directors shall prepare an estimated budget for the coming year.

Basis of Accounting

The budget is prepared on the same accrual basis of accounting as applied to the basic financial statements. Revenues and the related assets are recognized when earned, and expenditures are recognized when the obligation is incurred.

MICHAEL W. GREEN
Certified Public Accountant

827 W. Locust Street
STILWELL, OK. 74960
(918) 696-6298

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors
Rural Water District No. 3
Washington County, Oklahoma

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and each major fund of Washington County Rural Water District No. 3, (the District), as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued my report thereon dated April 18, 2022.

Report on Internal Control over Financial Reporting

In planning and performing my audit of the financial statements, I considered the District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, I do not express an opinion on the effectiveness of the District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

My consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses or significant deficiency.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Regards,

A handwritten signature in black ink, appearing to read "Michael Green". The signature is stylized with a large, looped "G" and a cursive "M".

Michael Green, CPA
Stilwell, Oklahoma
April 18, 2022